

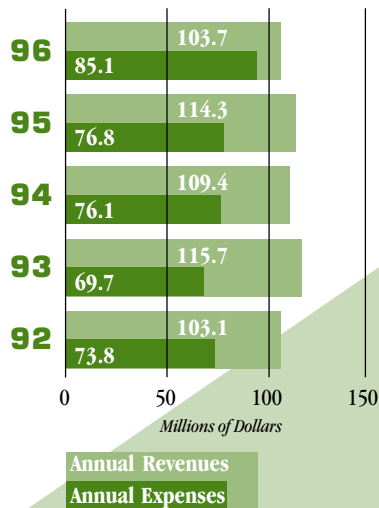
# Streamlining for the Future

## 1996 Financial Report to Our Customers



### Southwestern Power Administration

#### Revenues and Expenses



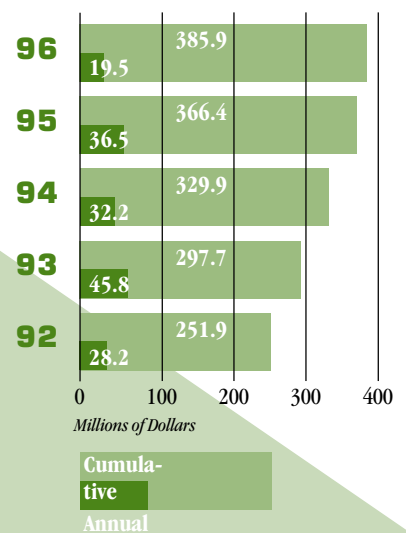
#### Federal Investment in Generating and Transmission Facilities in Service

	1996	1995
Generating facilities	\$940,274,409	\$932,758,752
Transmission facilities	142,132,557	126,152,967
Total investment	\$1,082,406,966	\$1,058,911,719
Adjustments:		
Retirement work-in-progress	(413,766)	(349,673)
Truman adjustment*	(31,635,039)	(31,012,966)
Dam safety adjustment**	(20,217,749)	(20,217,749)
Total repayable investment	\$1,030,140,412	\$1,007,331,331

\*Adjustment reflecting Harry S. Truman's limited operating conditions and interim cost allocation rates.

\*\*Dam safety work not repayable per P.L. 99-662

#### Repayment of Capital Investment





## Letter to Our Customers

Southwestern is pleased to introduce a new format for our Financial Report for Fiscal Year 1996, a format which demonstrates our continued commitment to controlling our costs of operation. The costs associated with producing this report were about 75 percent less than the costs of producing last year's Annual Report. This year's Financial Report was completed upon receipt of U.S. Army Corps of Engineers audited financial statements. The implementation of their new integrated accounting system impacted several Corps Districts.

Southwestern's revenues for FY 1996 were above average, but our energy production was down, as we had a below average water year. Our total revenues were \$103.7 million. We used \$19.5 million to repay the Federal investment in our hydropower facilities, which raised our total cumulative repayment to \$385.9 million. Our hydro plants produced a total of 3,187,956 megawatthours of energy, compared to an average annual production of 5,570,000 megawatthours.

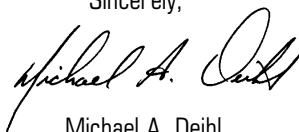
The mystery of how we had above-average revenues with less production when we didn't raise our rates is simple: we drew heavily on the energy banks we have with some of our customers. Part of our water resource management program is to "bank" energy with our neighbors in good water years such as we have enjoyed in the recent past. Then, in years with light rainfall, like FY 1996, we can draw on those banks to meet our contract obligations. This process not only makes good use

of our water resources; it also saves our customers money when we avoid buying energy to meet our obligations to them. Our rates are cost-based, and keeping rates as low as possible is one of our primary strategic guidelines.

FY 1996 was a busy year for us. We updated our corporate strategic plan in light of new challenges facing the electric utility industry. We conducted an intensive study to determine where we can streamline our organizational structure, both now and in the next few years. As a result of these projects and other factors, we reduced our projected operating budgets and staffing needs for most of the next decade. We also began implementation of FERC Orders No. 888 and No. 889.

Last year, our customer survey indicated that our customers are highly satisfied with our services to them. We will strive to maintain and surpass this level of customer satisfaction. The cooperation and support of our customers is a critical factor in any successes we may accomplish. With that fact in mind, let me congratulate you, our customer, for your contributions to all that we achieved in FY 1996.

Sincerely,



Michael A. Deihl,  
Administrator



## 1996 Accomplishments

1996 challenged Southwestern with the task of reducing operating costs to pass on savings to our customers. With budgets being reduced throughout the entire Federal government, Southwestern has initiated a number of ways to reduce costs. This translates into stabilizing or reducing rates to you, our customers. We reduced our FY '96 operating budget by 7.5% from FY '95.

Some of the areas where we have reduced costs include:

- Agency consolidation of floor space
- Reduction in force through attrition
- Travel and productivity savings using video-conferencing
- Overtime reduction through use of compensatory time
- Procurement innovations using credit cards for purchases
- Using performance measurements throughout the organization
- Reduction in supervisor-to-employee ratios
- Reduction in operating costs for liaison office
- Cross utilization of personnel in different functional areas
- Interagency sharing of office space and lease costs

## Fiscal Year 1996 Financial and Statistical Report

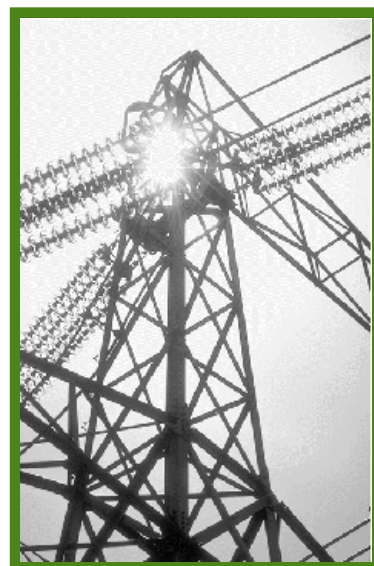
### Summary of Results

- Southwestern credited \$19.5 million to repayment in FY 1996, raising cumulative repayment of investment to \$385.9 million. This represents 37.5 percent of the total repayable investment.
- Revenues for FY 1996 were \$103.7 million compared to \$114.3 million in FY 1995. This is the fifth-highest revenue-producing year in Southwestern's 53-year history. Expenses, excluding depreciation, were \$85.1 million, of which \$18.2 million was payment of interest on the investment. The net revenue, which was applied to repayment of the principal, was \$19.5 million.
- Fiscal year 1996 brought unfavorable water conditions. Energy production of 3.2 gigawatthours was below the average generation of 5.6 gigawatthours and, in fact, was the lowest generation since 1981.

### Southwestern's objectives are to:

- repay the initial power investment in each power project within 50 years of the project's on-line date (the start of commercial generation);
- repay the initial cost of each portion of the transmission system within 45 years of construction;
- repay the cost of replacement of such equipment within the service life of the equipment; and
- pay all costs associated with the operation and maintenance of the projects and the transmission system annually.

Southwestern's Complete Audited Financial Statements can be obtained on-line at <http://www.swpa.gov>

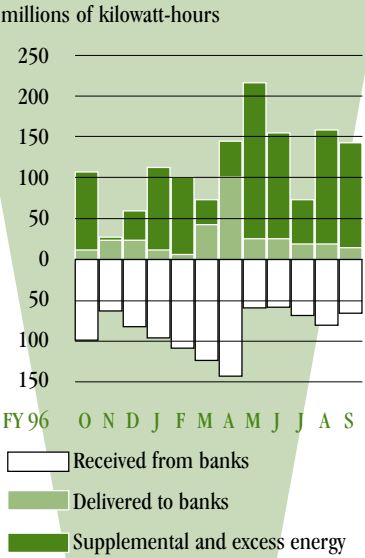


Detail of FY 1996 Power Sales

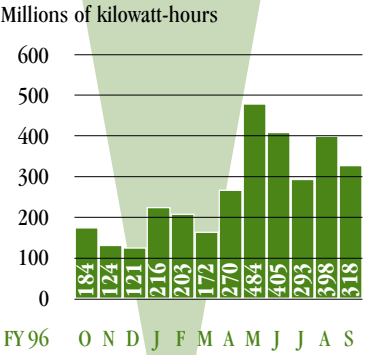
Customer	Capacity kW	Energy Delivered (000) kWh	Revenue from Power Sales (\$)
Cooperatives			
Arkansas Electric Cooperative Corporation	189,000	441,542	7,565,120
Associated Electric Cooperative, Inc.	519,000	543,642	18,521,498
Brazos Electric Power Cooperative, Inc.	35,200	34,706	1,232,194
Cajun Electric Power Cooperative, Inc.	91,400	207,374	3,627,765
Kansas Electric Power Cooperative, Inc.	100,000	236,017	4,015,569
Kaw Valley Electric Cooperative, Inc.	1,000	1,869	37,783
Northeast Texas Electric Cooperative, Inc.	127,500	261,540	4,975,636
Rayburn Country Electric Cooperative, Inc.	44,100	131,260	2,012,360
Sam Rayburn Dam Electric Cooperative, Inc.	52,000	56,453	2,168,136
Tex-La Electric Cooperative of Texas, Inc.	28,200	84,291	1,289,434
Western Farmers Electric Cooperative	260,000	596,552	10,366,889
Total Cooperatives (11 customers)	1,447,400	2,595,246	55,812,384
Government Agencies			
Department of the Army, Ft. Sill, OK	36,700	166,235	4,325,486
Army Ammunition Plant, McAlester, OK	2,688	9,331	260,739
Vance Air Force Base, Enid, OK	6,600	12,154	290,744
Total Government Agencies (3 customers)	45,988	187,720	4,876,969
Municipalities			
Anthony, Kansas	300	598	11,478
Augusta, Arkansas	3,700	7,016	139,632
Bentonville, Arkansas	18,000	39,112	705,242
Carthage, Missouri	7,000	13,512	275,313
Clarksville, Arkansas	19,100	37,165	723,460
Coffeyville, Kansas	1,900	3,715	72,328
Comanche, Oklahoma	4,200	7,627	185,020
Copan, Oklahoma	2,500	4,540	110,131
Duncan, Oklahoma	32,500	59,019	1,431,701
Eldorado, Oklahoma	1,300	2,361	57,268
Fulton, Missouri	3,000	5,801	113,831
Goltry, Oklahoma	900	1,622	39,598
Granite, Oklahoma	2,300	4,177	101,320
Hermann, Missouri	5,800	11,477	221,202
Higginsville, Missouri	3,000	5,800	113,836
Hominy, Oklahoma	10,000	18,160	440,524
Jonesboro, Arkansas	80,000	175,373	3,142,660
Kansas City, Kansas	38,600	89,713	1,542,825
Kansas Municipal Energy Agency (Topeka) (Serves 24 municipalities)	11,200	20,986	421,428
Kennett, Missouri	11,000	26,221	458,664
Lafayette, Louisiana	18,000	26,078	637,871
Lamar, Missouri	12,000	23,442	456,582
Lexington, Oklahoma	4,100	7,389	180,390
Louisiana Energy & Power Authority (Serves 9 municipalities)	29,000	50,519	1,073,550
Malden, Missouri	5,000	10,738	202,463
Manitou, Oklahoma	600	1,090	26,318
Minden, Louisiana	2,400	4,576	90,721
Natchitoches, Louisiana	2,500	3,622	88,593
New Madrid, Missouri	4,500	8,948	178,215
Nixa, Missouri	5,300	11,316	214,239
Olustee, Oklahoma	700	1,271	30,837
Paragould, Arkansas	50,500	118,676	2,097,488
Paris, Arkansas	10,800	19,888	475,762
Piggott, Arkansas	4,900	11,762	230,183
Poplar Bluff, Missouri	39,500	91,241	1,634,359
Purcell, Oklahoma	14,500	26,702	638,755
Ryan, Oklahoma	1,900	3,450	83,699
Sam Raybum Municipal Power Agency	7,350	34,202	294,312
Sikeston, Missouri	33,800	63,832	2,188,983
Skiatook, Oklahoma	11,000	24,310	438,328
Spiro, Oklahoma	4,000	7,209	175,990
Springfield, Missouri	50,000	106,788	1,950,066
Thayer, Missouri	2,800	5,492	106,635
Walters, Oklahoma	6,400	11,622	281,935
West Plains, Missouri	15,000	28,921	590,272
Wetumka, Oklahoma	2,600	4,721	114,536
Yale, Oklahoma	3,700	6,668	162,791
Total Municipalities (78 customers)	599,150	1,248,468	\$24,951,334
Total Southwestern Sales of Electric Power and Energy (92 customers)			
	2,092,538	4,031,434	\$85,640,687

Discretionary Energy

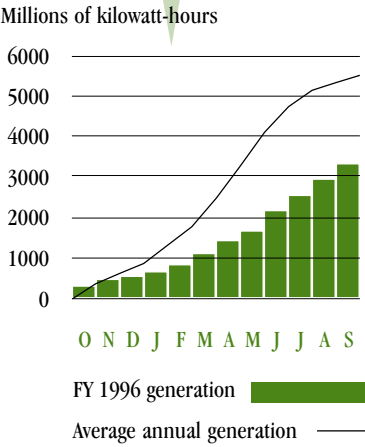
Distribution and Banking Activity



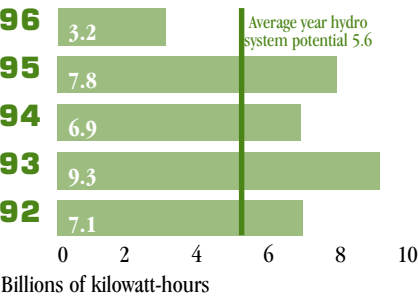
Energy Generation



Net Hydropower Generation



Hydroelectric Energy Generation



## Response Form

☐ Please send the complete audited financial statements to:

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SOUTHWESTERN POWER ADMINISTRATION  
PO BOX 1619  
TULSA OK 74101-9539

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IN THE  
UNITED STATES



## <sup>1</sup>Combined Statements of Revenues, Expenses, and Accumulated Net Revenues

Year Ended September 30	1996	1995
Operating revenues:		
Sales of electric power:		
Cooperatives	\$ 55,812,384	\$ 69,395,297
Municipalities	24,951,334	29,090,080
Federal and state agencies	4,876,969	3,809,122
Banking exchange	3,549,173	4,175,241
Transmission service charges for others	3,449,214	3,217,493
Other	783,582	656,432
Total operating revenues before deferrals	93,422,656	110,343,665
Net purchase power credit and banking exchange	10,305,254	3,920,513
Total operating revenues	103,727,910	114,264,178
Operating expenses:		
Operation and maintenance	49,601,162	49,435,490
Purchase power and banking exchange	13,502,379	6,569,731
Depreciation	17,469,577	12,774,661
Transmission service charges by others	3,795,172	3,603,303
Total operating expenses excluding interest	84,368,290	72,383,185
Net operating revenues	19,359,620	41,880,993
Interest on Federal investment	20,845,354	20,272,609
Allowance for funds used during construction (AFUDC)	(2,639,456)	(3,087,573)
Net interest expense	18,205,898	17,185,036
Net revenues	1,153,722	24,695,957
Accumulated net revenues:		
Balance, beginning of year	92,478,305	67,782,348
Balance, end of year	\$ 93,632,027	\$ 92,478,305

## Source and Disposition of Revenue

### Where It Came From

	\$ in thousands	percent
Miscellaneous	4,234	4.1
Deferred revenue	10,305	9.9
Investor owned utility	0	0.0
Government agencies	4,877	4.7
Municipalities	24,951	24.1
Cooperatives	55,812	53.8
Banking exchange	3,549	3.4
Total	103,728	100.0%

### Where It Went

	\$ in thousands	percent
Available for repayment	19,457	18.8
Interest expense	18,206	17.5
Purchased power & bank exchange	13,502	13.0
Transmission service charge	3,795	3.7
<sup>2</sup> Operations, maintenance & other	48,768	47.0
Total	103,728	100.0%

## Source and Disposition of Energy

### Where It Came From

	Millions kWh	percent
Direct purchase	0.0	0.0
Interchange	943.1	22.3
Borderline purchases	100.2	2.4
Generated by hydroelectric plants		
of U.S. Army Corps of Engineers	3,188.0	75.3
Total	4,231.3	100.0%

### Where It Went

	Millions kWh	percent
Losses	32.9	0.8
Interchange	281.2	6.7
Contract exchange	-114.2	-2.7
Municipalities	1,248.5	29.5
Government agencies	187.7	4.4
Cooperatives	2,595.2	61.3
Investor owned utility	0.0	0.0
Total	4,231.3	100.0%

<sup>1</sup> Combined means Southwestern Power Administration and the Southwestern Division of the U.S. Army Corps of Engineers. For a complete copy of Southwestern's audited financial statements prepared in accordance with generally-accepted accounting principles, please call Donna Short, Deputy Controller, at 918/595-6638; FAX 918/595-6656; e-mail short@swpa.gov.

<sup>2</sup> Includes losses on retirement of assets booked through the depreciation reserve.



**SOUTHWESTERN FEDERAL POWER SYSTEM**

**Combined Financial Statements  
and Supplemental Schedules**

**(With Independent Auditors' Reports Thereon)  
For the Years Ended September 30, 1996 and 1995**

# **SOUTHWESTERN FEDERAL POWER SYSTEM**

## **OVERVIEW**

### **The Southwestern Federal Power System**

The Southwestern Federal Power System encompasses the operation of 24 hydroelectric power plants by the U.S. Army Corps of Engineers and the marketing of power and energy from those plants by the Southwestern Power Administration of the U.S. Department of Energy.

To integrate the operation of these hydroelectric generating plants and to transmit power from the dams to its customers, Southwestern Power Administration (Southwestern) maintains 2,220 kilometers (1,380 miles) of high-voltage transmission lines, 24 substations, and 46 microwave and VHF radio sites. Southwestern's headquarters are in Tulsa, Oklahoma; its dispatch center is in Springfield, Missouri; and its maintenance crews are based in Jonesboro, Arkansas, in Gore and Tupelo, Oklahoma, and in Springfield, Missouri. Three offices - Corporate Operation, Maintenance, and Corporate Services - are responsible for meeting Southwestern's mission.

Twelve of the 24 generating plants are scheduled directly by Southwestern, and a total of 19 contribute to the interconnected system operations. Generation at the five remaining projects (Denison, Narrows, Sam Rayburn, Whitney, and Willis) is used to serve specific customer loads.

At the end of fiscal year 1996, Southwestern marketed power and energy to 10 generation and transmission cooperatives, one distribution cooperative, three military installations, 44 municipal utilities, and three municipal utility joint-action agencies. One of the joint-action agencies has its own allocation of power from Southwestern; the other two serve 33 municipal utilities to whom Southwestern has allocated power. The total number of power allocation customers is 92. Additionally, excess energy is occasionally sold to non-allocation utilities.

### **Mission Statement**

Southwestern Power's employees market federally generated hydroelectric power to public power customers and operate and maintain a high-voltage transmission system, at cost-based rates which return the taxpayers' investment in the power system.

## **Section 5, Flood Control Act of 1944**

Section 5 of the Flood Control Act of 1944 as set out in Title 16 U.S.C.A. Section 825s sets forth the mission of Southwestern Power Administration, which was established in 1943.

Electric power and energy generated at reservoir projects under the control of the Department of the Army, and in the opinion of the Secretary of the Army, not required in the operation of such projects shall be delivered to the Secretary of Energy. The Secretary of Energy shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles, the rate schedules to become effective upon confirmation and approval by the Secretary of Energy.

Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power over a reasonable period of years. Preference in the sale of such power and energy shall be given to public bodies and cooperatives. The Secretary of Energy is authorized, from funds to be appropriated by the Congress, to construct or acquire, by purchase or other agreement, only such transmission lines and related facilities as may be necessary in order to make the power and energy generated at said projects available in wholesale quantities for sale on fair and reasonable terms and conditions to facilities owned by the Federal Government, public bodies, cooperatives, and privately owned companies. All the monies received from such sales shall be deposited in the Treasury of the United States as miscellaneous receipts.

### **Financial Statement Presentation**

1. The combined financial statements have been prepared to report the financial position and results of operations of the Southwestern Federal Power System.
2. While the statements have been prepared from the books and records of the Southwestern Power Administration and the related U.S. Army Corps of Engineers in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
3. The combined financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

### **Performance Measurements**

Performance measurements which are used to determine effectiveness and efficiency of programs in the areas of financial performance and program performance are:

- Customer satisfaction
- Work environment Financial stability
- Public trust
- Reliability

## **National Performance Review**

Southwestern is developing plans in response to the National Performance Review mandate which directs specific areas of reform within the Government. Those reforms target reducing the Federal budget and increasing net income by:

- decreasing Federal employment,
- increasing employee-to-supervisor ratios,
- reducing service contracts by 20 percent,
- decreasing the number of directives and regulations by half, and
- increasing net income from the Power Marketing Administrations.

Government agencies have been allowed three to five years to comply with the individual mandates.

### **PERFORMANCE MEASUREMENTS**

Southwestern Power Administration developed a list of program-specific performance measurements to help monitor specific areas of interest. These five measures will be accomplished through ten objectives.

These performance measurements will be utilized to research and collect electric utility data. Southwestern will compare its strengths and weaknesses with other electric utilities, allowing specific areas to be focused on for future improvement.

#### **Customer Satisfaction**

##### **1. Competitive Power Sales Rate (by limiting expenditures)**

Southwestern's target for FY 1996 is to limit operations and maintenance expenses to the 3.1 percent Consumer Price Index for inflation. Southwestern did not achieve this goal. Actual operations and maintenance expenditures exceeded FY 1995's by 4 percent.

The FY 1997 target for this objective will be a 10 percent reduction of the prior year's indirect and overhead expenses.

##### **2. Improved Customer Service**

This is a measure of Southwestern's performance as validated through customer responses to an annual survey. This goal's target is to achieve an overall average performance rating of 80 percent or better. The survey results published in September 1996, indicated that Southwestern exceeded this goal by 3 percent with an overall average customer satisfaction rating of 83 percent.

The FY 1997 target for this objective will be an overall rating of 84 percent.



## **Work Environment**

### **3. Attract a diverse, flexible, and highly competent workforce**

The goal is that twenty-five percent of all Southwestern's new hires will be from the under utilized classes (women and minorities). Seven employees were hired during FY 1996. Of these, five were from the under utilized classes, bringing Southwestern's performance to 71 percent, well exceeding the goal.

The FY 1997 target for this objective remains the same.

### **4. Increase personal development**

With this measure, Southwestern intends to increase total training hours 10 percent while maintaining a training budget equal to FY 1995. Southwestern did not meet this goal in FY 1996. Although training dollars spent were reduced by 26 percent, training hours were reduced by 38 percent.

During FY 1997, Southwestern's plan is a 10 percent increase in the average training hours per employee, while reducing the average training cost per employee by 10 percent. FY 1996 will be the base year for the new comparison.

### **5. Improved Safety Record**

Southwestern was successful in exceeding its goal of a 10 percent reduction from the reportable incident rate prescribed by the Bureau of Labor for FY 1995. To determine this rate, the number of accidents is multiplied by 200,000 hours then divided by the total hours worked. This is compared to the Bureau of Labor accident rate, which is based on a 200,000 hour standard (100 full time employees working 40 hours per week, 50 weeks per year). Southwestern achieved a rate of 1.96, with a target rate of 5.22 (Bureau of Labor rate less 10 percent).

During FY 1997, the performance measurement will change from the reportable incident rate to the number of lost work days. The target will be not to exceed 50 lost workdays.

## **Financial Stability**

### **6. Timely Investment Repayment**

The goal of timely repayment of investment is based on the annual Power Repayment Study (PRS), which includes factors such as expected water generation, expenses, and revenues. Southwestern's target is to meet or exceed the annual repayment schedule. In anticipation of an average year of water generation for FY 1996, the goal was set at \$23,784,000. However, due to less than average rainfall during FY 1996, the agency was unable to meet its repayment schedule.

## **7. Positive Net Revenues**

Annual revenues will exceed annual costs resulting in positive net revenues for the fiscal year. Southwestern was successful in this objective by achieving net revenues of \$1.2 million.

For FY 1997, the financial stability goal has been redesigned to become a more effective measure. The new objective will be to reduce the uncoded obligation balance to less than 35 percent of annual costs.

## **Public Trust**

## **8. Environmental Compliance**

Environmental compliance is achieved by issuing disposal orders for all hazardous waste identified prior to August 1 of the fiscal year. Southwestern issued disposal orders for all the hazardous materials identified during the fiscal year, thereby achieving this goal.

The target for this objective for FY 1997 remains the same.

## **9. Enhanced Community Participation**

This measures the number of Southwestern employees participating in work-related activities in the local community. Examples of this type of involvement include school volunteer programs, adopt-a-highway, and professional organizations. The agency's target is to have at least 50 percent of its employees participate in such programs. Southwestern was successful in this objective with a 57 percent participation level. The target for FY 1997 has been set at 65 percent of the employees participating in community-related activities.

## **10. Increased Operational Reliability of the Integrated System**

Customers are dependent upon Southwestern for a reliable source of energy. As a reliability measure, the industry measure is the system average interruption duration index (SAIDI). Southwestern achieved its goal of not more than 150 minutes of total outage per year for 95 percent of its delivery points.

Southwestern has modified this objective for FY 1997. The target will be not more than 150 minutes total of preventable outages per year for 96 percent of its points of delivery. In addition, hourly inadvertent power flow will be less than 14 MWhs for 90 percent of all hours delivered.

A second objective has been added to the reliability goal for FY 1997. The new objective is increased reliability through efficient maintenance scheduling. The target is a combination of two maintenance aspects. The first is to reduce the substation work backlog indicated in MMIS (Maintenance Management Information System) by 10 percent in each area office. The second is to install 75 miles of fiber optic overhead wire, 250 poles and crossarms, 300 braces, 5 circuit breakers, and clear 400 miles of right-of-way.



## **INDEPENDENT AUDITORS' REPORT**

The Administrator of  
Southwestern Power Administration  
U.S. Department of Energy:

We have audited the accompanying combined statements of assets, Federal investment, and liabilities of the Southwestern Federal Power System (SWFPS) as of September 30, 1996 and 1995, and the related combined statements of revenues, expenses, and accumulated net revenues, and cash flows for the years then ended as described in Note i. These combined financial statements are the responsibility of SWFPS' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, Audit Requirements for Federal Financial Statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the SWFPS as of September 30, 1996 and 1995, and the results of its operations and changes in accumulated net revenues, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued reports dated June 23, 1997, on our consideration of the SWFPS' internal control structure and on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the combined financial statements referred to in the first paragraph of this report, taken as a whole. The accompanying combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of individual projects. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

The information presented in management's Overview and Performance Measurements is not a required part of the combined financial statements, but is supplementary information required by OMB Bulletin 94-01, Form and Content of Agency Financial Statements. We have considered whether this information is materially inconsistent with the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's Overview and Performance Measurements is addressed in our auditors' report on the internal control structure in accordance with OMB Bulletin 93-06.

This report is intended for the information of the management of the Southwestern Power Administration, the U.S. Army Corps of Engineers, and the U.S. Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*K P M A Peat Marwick LLP*

Tulsa, Oklahoma  
June 23, 1997

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Combined Statements of Assets, Federal Investment, and Liabilities**  
**September 30, 1996 and 1995**

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Utility plant:		
Plant in service	\$ 1,082,406,966	1,058,911,719
Accumulated depreciation	(292,245,862)	(273,942,832)
Construction work in progress	50,261,335	45,351,831
Retirement work in progress	(413,766)	(349,673)
Net utility plant	<u>840,008,673</u>	<u>829,971,045</u>
Current assets:		
Unexpended appropriations	30,669,866	31,019,959
Accounts receivable	17,886,396	15,484,614
Materials and supplies, at average cost	<u>6,712,874</u>	<u>6,363,435</u>
	<u>55,269,136</u>	<u>52,868,008</u>
Banking exchange receivable	8,055,144	15,111,062
Other assets	<u>57,651</u>	<u>907,921</u>
	<u>\$ 903,390,604</u>	<u>898,858,036</u>
 <b><u>Federal Investment and Liabilities</u></b>		
Federal investment:		
Congressional appropriations	\$ 2,060,466,664	1,989,518,289
Interest on Federal investment	658,502,522	638,860,346
Transfers from other federal agencies	<u>26,849,882</u>	<u>26,869,060</u>
Gross Federal investment	2,745,819,068	2,655,247,695
Funds returned to U.S. Treasury	<u>(1,978,492,808)</u>	<u>(1,895,286,471)</u>
Net outstanding Federal investment	767,326,260	759,961,224
Accumulated net revenues	<u>93,632,027</u>	<u>92,478,305</u>
Total Federal investment	<u>860,958,287</u>	<u>852,439,529</u>
Current liabilities - accounts payable and accrued liabilities	18,171,100	13,107,202
Purchase power and banking exchange deferral	23,929,497	32,994,983
Hydropower revenue deferral	331,720	316,322
Commitments and contingencies (Notes 3 and 5)		
	<u>42,432,317</u>	<u>46,418,507</u>
Total liabilities	<u>42,432,317</u>	<u>46,418,507</u>
Total Federal investment and liabilities	<u>\$ 903,390,604</u>	<u>898,858,036</u>

The accompanying notes are an integral part of these power system combined financial statements.



**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Combined Statements of Revenues, Expenses,**  
**and Accumulated Net Revenues**  
**Years ended September 30, 1996 and 1995**

	<u>1996</u>	<u>1995</u>
Operating revenues:		
Sales of electric power:		
Cooperatives	\$ 55,812,384	69,395,297
Municipalities	24,951,334	29,090,080
Federal and state agencies	4,876,969	3,809,122
Banking exchange	3,549,173	4,175,241
Transmission service charges for others	3,449,214	3,217,493
Other	<u>783,582</u>	<u>656,432</u>
Total operating revenues before deferrals	93,422,656	110,343,665
Net purchase power credit and banking exchange	<u>10,305,254</u>	<u>3,920,513</u>
Total operating revenues	<u>103,727,910</u>	<u>114,264,178</u>
Operating expenses:		
Operation and maintenance	49,601,162	49,435,490
Purchase power and banking exchange	13,502,379	6,569,731
Depreciation	17,469,577	12,774,661
Transmission service charges by others	<u>3,795,172</u>	<u>3,603,303</u>
Total operating expenses excluding interest	<u>84,368,290</u>	<u>72,383,185</u>
Net operating revenues	<u>19,359,620</u>	<u>41,880,993</u>
Interest on Federal investment	20,845,354	20,272,609
Allowance for funds used during construction (AFUDC)	<u>(2,639,456)</u>	<u>(3,087,573)</u>
Net interest expense	<u>18,205,898</u>	<u>17,185,036</u>
Net revenues	1,153,722	24,695,957
Accumulated net revenues:		
Balance, beginning of year	<u>92,478,305</u>	<u>67,782,348</u>
Balance, end of year	\$ <u><u>93,632,027</u></u>	<u><u>92,478,305</u></u>

The accompanying notes are an integral part of these power system combined financial statements

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Combined Statements of Cash Flows**  
**Years ended September 30, 1996 and 1995**

	<u>1996</u>	<u>1995</u>
Cash flows from operating activities:		
Net revenues	\$ 1,153,722	24,695,957
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	17,469,577	12,774,661
Interest expense on Federal investment	20,845,354	20,272,609
(Increase) decrease in:		
Accounts receivable	(2,401,782)	(5,175,708)
Materials and supplies	(349,439)	(823,488)
Banking exchange receivable	7,055,918	1,033,050
Other assets	850,270	74,893
Increase (decrease) in:		
Accounts payable and accrued liabilities	5,063,898	1,985,954
Purchase power and banking exchange deferral	(9,065,486)	(2,613,982)
Hydropower revenue deferral	<u>15,398</u>	<u>14,665</u>
Net cash provided by operating activities	<u>40,637,430</u>	<u>52,238,611</u>
Cash flows from investing activities:		
Additions to utility plant	(24,850,337)	(29,900,045)
Allowance for funds used during construction	<u>(2,639,456)</u>	<u>(3,087,573)</u>
Net cash used in investing activities	<u>(27,489,793)</u>	<u>(32,987,618)</u>
Cash flows from capital financing activities:		
Congressional appropriations	70,948,375	65,330,528
Funds returned to U.S. Treasury	(83,206,337)	(98,143,399)
Interest on Federal investment - purchase power deferral	<u>(1,239,768)</u>	<u>(1,306,531)</u>
Net cash used in capital financing activities	<u>(13,497,730)</u>	<u>(34,119,402)</u>
Net decrease in cash	(350,093)	(14,868,409)
Cash at beginning of year	<u>31,019,959</u>	<u>45,888,368</u>
Cash at end of year	<u><u>30,669,866</u></u>	<u><u>31,019,959</u></u>
Noncash investing activities and other transactions -		
Transfer of plant in service from other Federal agencies	\$ <u>32</u>	<u>145,325</u>
AFUDC included in interest expense on Federal investment	\$ <u><u>2,639,456</u></u>	<u><u>3,087,573</u></u>

The accompanying notes are an integral part of these power system combined financial statements.

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Notes to Combined Financial Statements**  
**September 30, 1996 and 1995**

**(1) Summary of Significant Accounting Policies**

**General Information and Basis of Preparation of Financial Statements**

The accompanying combined financial statements of the Southwestern Federal Power System (SWFPS) include the accounts of the Southwestern Power Administration (Southwestern), a unit of the U.S. Department of Energy (DOE), and the accounts of the Southwestern hydroelectric generating plants and power operations of the U.S. Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense. Southwestern and the Corps are separately managed and financed and each maintains its own accounting records. For purposes of financial and operational reporting, the facilities and related operations are considered one entity.

The Corps has constructed and operates hydroelectric generating plants in the states of Oklahoma, Missouri, Arkansas, and Texas. Costs of multi-purpose Corps projects are allocated to power and non-power purposes. The portion of such project costs allocated to power is included in the financial statements. Southwestern, as designated by the Secretary of the DOE, purchases, transmits, and markets power.

The SWFPS is subject to the regulations of the Federal Energy Regulatory Commission (FERC). Accounts are maintained in accordance with generally accepted accounting principles, the uniform system of accounts prescribed for electric utilities by the FERC, the accounting practices and standards established by the DOE, and the requirements of specific legislation and executive directives issued by government agencies. The SWFPS' financial statements are prepared in accordance with Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS No. 71), which requires that the effects of the rate-making process be recorded. Such effects can provide reasonable assurance about the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

**Confirmation and Approval of New Rates**

Integrated system rate schedules were confirmed and approved by the FERC on a final basis on September 18, 1991. These rates were placed into effect on a two-step incrementally increasing basis for the period October 1, 1990, through September 30, 1994. The final increase of 5.7 percent became effective April 1, 1992. On August 16, 1995, the rates were extended through September 30, 1996, by the Deputy Secretary of Energy. The Sam Rayburn and Robert Douglas Willis projects are presently under rates which were confirmed and approved by FERC on a final basis on August 11, 1993, and are in effect from October 1, 1993, through September 30, 1997.

## **SOUTHWESTERN FEDERAL POWER SYSTEM**

### **Notes to Combined Financial Statements, Continued**

#### **Utility Plant and Depreciation**

Plant in service and construction and retirement work in progress are stated at original cost or at appraisal value for property transferred from other government agencies. Cost includes direct labor and materials, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and minor replacements are charged to operation and maintenance expense. Generally, the cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when it is removed from service. Gains and losses are recognized only on sales of significant identifiable assets.

Depreciation on utility plant is computed on a straight-line basis over the estimated service lives of the various classes of property. Service lives currently range from 15 to 100 years for transmission plant and generating plant components.

#### **Unexpended Appropriations**

Unexpended appropriations consist of the unexpended balance of funds appropriated by Congress for construction and operation and maintenance purposes and are maintained by the U.S. Treasury. For purposes of the statements of cash flows, unexpended appropriations are considered to be cash.

#### **Congressional Appropriations**

Congressional appropriations received by the Corps are authorized and allocated to individual projects on a total project basis. These total project allocations are further distributed between power and non-power purposes at the discretion of project management. Power purpose allocations may vary from actual amounts expended during the year. It is the intent of the Corps' project management to distribute congressional appropriations in amounts approximating estimated current year expenses and to adjust the distribution as necessary within the limits of the transfer authority residing at the district level.

#### **Purchase Power and Banking Exchange Deferral and Receivable**

A separate rate component (adder) recovers the cost of purchased power based upon the average purchased power costs over the past several years. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through rates. Likewise, if the expense is less than the adder, the excess revenue is deferred. In 1988, the SWFPS determined that the deferred revenue accumulated from the adder exceeded estimated requirements. As a result, refunds of the adder have been accomplished by including a purchase power credit in the rate schedules approved for the period July 1, 1988, through September 30, 1996. The SWFPS calculates interest on the purchased power deferral at the applicable current interest rate established in the fiscal year of the deferral. Such interest is deferred to offset future purchase power costs.

## **SOUTHWESTERN FEDERAL POWER SYSTEM**

### **Notes to Combined Financial Statements, Continued**

The SWFPS has arrangements with certain customers in which excess power generated by the SWFPS is banked with the customer until needed by the SWFPS and the customer has excess power available. The SWFPS records a receivable for the power banked at the customers' cost of generation. The net revenue or expense associated with banking activity is deferred.

#### **Operating Revenues**

Operating revenues are recorded on the basis of service rendered. Rates are established under requirements of the Flood Control Act of 1944, related legislation and executive departmental directives, and are to provide sufficient revenues to meet all required payments for system costs, including operation and maintenance expenses less depreciation, interest, and payment to the U.S. Treasury for the Federal investment in utility plant. Rates are intended to provide for recovery of the Federal investment in transmission and generating facilities within the service lives of the assets, not to exceed 50 years from the date placed in service, while operation and maintenance costs and interest on Federal investment are intended to be recovered annually.

As set forth in "Utility Plant and Depreciation" above, assets are being depreciated for financial reporting purposes using the straight-line method over their estimated service lives which currently range from 15 to 100 years for transmission facilities components and generating facilities components. Accordingly, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of generating facilities, continue beyond the period within which such costs will have been recovered through rates.

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of the recognition of expenses and related revenues, resulting primarily from the difference between the recognition of depreciation and the related recovery of the U.S. Treasury's investment in utility plant. The SWFPS is a nonprofit agency, thus at any given time the accumulated net revenue (deficit) balance is deemed to represent deferred revenue or expense, respectively.

The practice followed by the SWFPS is in conformity with the accounting practices and standards established by the DOE and the requirements of specific legislation and executive directives issued by government agencies.

#### **Interest on Federal Investment**

Interest on Federal investment is a cost mandated by the Secretaries of the Departments of Energy and Defense and the FERC. Southwestern computes interest in accordance with DOE Order RA 6120.2, which provides that interest be computed on the remaining investment after revenues have been applied to recovery of costs during the year, any prior year unpaid costs, and then to Federal investment bearing the highest interest rate (see Note 4).



**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Notes to Combined Financial Statements, Continued**

**Allowance for Funds Used During Construction (AFUDC)**

The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate making process over the repayment life of the related property through increased revenues resulting from higher recoverable investment. The interest rates used are established by law, administrative order or administrative policy for the fiscal year during which the construction commenced (7.625 percent for fiscal year 1996).

**Retirement Benefits**

The SWFPS employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), both of which are contributory defined benefit pension plans. Retirement benefit expenses under the CSRS are equivalent to 7 percent of eligible employee compensation. Under the FERS, expenses are variable based on the options chosen by the participant, but do not exceed 12.2 percent of eligible employee compensation. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM).

The contribution levels as legislatively mandated do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding include direct appropriations as provided to the OPM, not the individual agencies. The costs of health and life insurance benefit programs are similarly administered and paid through the OPM.

Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, directs the full cost reporting of employment benefits by employing entity. Under this concept, Southwestern (and the agencies identified above comprising the reporting entity) will be required to accrue the costs to the Federal government of providing pension, life, health, and other post-employment benefits (severance payments, counseling and training, workers compensation benefits, etc.), "regardless of whether the benefits are funded by the reporting entity or by direct appropriations to the trust funds." SFFAS No. 4 will be effective after September 30, 1997.

**Income Taxes**

The SWFPS' income and facilities are exempt from taxation.

**(2) Utility Plant**

Plant in service and construction and retirement work in progress consist principally of generating and transmission facilities as follows:

	<u><b>1996</b></u>	<u><b>1995</b></u>
Generating facilities	\$ 953,812,539	940,862,978
Transmission facilities	<u>178,441,996</u>	<u>163,050,899</u>
	<u>\$ 1,132,254,535</u>	<u>1,103,913,877</u>

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Notes to Combined Financial Statements, Continued**

**(3) Tentative Cost Allocations**

Allocations of plant cost and operation and maintenance expense between power and non-power purposes for three of the Corps' operating projects are presently based on tentative allocations. At September 30, 1996, total plant costs for these three projects were \$1,095,978,846, of which \$289,735,930 was tentatively allocated to power and subject to adjustment. The amount of adjustments that may be necessary when final allocations are approved for these projects is not presently determinable. When final allocations are made, the cumulative effect will be determined and reflected as an adjustment to the financial statements at that time.

The Harry S Truman project has a tentative cost allocation of \$159,164,640. Since being placed in service, this project's operations have been restricted because of limited water flow. The restrictions have prevented the project from producing power to its design capacity. A final determination of when, if ever, the project can reach full generating capacity has not yet been made. If the restriction on generating capacity is not removed, some change in allocation of cost may be required. If such a change in allocation is required, the cumulative effect will be determined and reflected as an adjustment to the financial statements at that time.

**(4) Investment of U.S. Government**

Construction and operation of the SWFPS transmission system and the Corps' generating plants and operations are financed through Congressional appropriations, except for the Robert Douglas Willis project which is financed by other parties. The U.S. Government's investment in each generating project and each year's investment in the transmission system is to be repaid to the U.S. Treasury within the service lives of the assets, not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis. Annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid through fiscal year 1996. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Federal investment. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by repayment of the highest interest-bearing investment first. Interest rates applied to the unamortized initial investment of the U.S. Government in the Corps' hydroelectric plants range from 2.5 percent to 3.125 percent for facilities in service at the beginning of the year and 7.625 percent for facilities placed in service during 1996. Interest rates applied to the unamortized investment of the U.S. Government in Southwestern transmission facilities are approximately 2.5 percent for facilities in service at the beginning of the year and 7.625 percent for facilities placed in service during 1996. The rates have been set either by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Notes to Combined Financial Statements, Continued**

**(5) Commitments and Contingencies**

Based on the 1996 Integrated System Power Repayment Study, the projected increase in capital investment in 1997 is \$12,878,900 which includes \$10,331,100 for transmission facilities and \$2,547,800 for generating facilities. The 5-year investment increase projected in the 1996 Power Repayment Study for 1997 through 2001 is estimated to cost \$111,315,657.

The SWFPS is a party to certain claims and legal actions arising in the ordinary course of business. In addition, the Corps has begun studies for the purpose of determining whether possible environmental contamination exists at various dam locations. The cost of remediation, if any, at these sites is unknown. In management's opinion, these actions will not have a material adverse effect on the financial condition or results of operations of the SWFPS.

**(6) Restatement of Federal Investment**

It was not determined how to properly recognize interest on Federal investment for power assets placed into service by the Corps districts within the SWFPS between 1970 and 1988. Interior Department Order 2929 was issued in 1970 and generally requires the use of annual interest rates as set by the U.S. Treasury Department for new power projects. The Corps and the DOE agreed in 1983 to begin using the U.S. Treasury interest rate in the calculation of the interest on the Federal investment related to new power projects. The agreement also stipulated that the interest rates from 1970 to 1983 be analyzed to insure compliance with the agreement. No Corps district had implemented the U.S. Treasury interest rate provisions prior to fiscal year 1989.

Additional interest, if any, on Federal investment for the period 1970 to 1988 has not been included in the accompanying financial statements. Resolution of this matter may require additional interest on Federal investment to be recognized.

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Combining Statements of Assets, Federal Investment, and Liabilities**  
**September 30, 1996**

<u>Assets</u>	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Utility plant:			
Plant in service	\$ 142,132,557	940,274,409	1,082,406,966
Accumulated depreciation	(31,294,977)	(260,950,885)	(292,245,862)
Construction work in progress	36,779,007	13,482,328	50,261,335
Retirement work in progress	<u>(469,568)</u>	<u>55,802</u>	<u>(413,766)</u>
Net utility plant	<u>147,147,019</u>	<u>692,861,654</u>	<u>840,008,673</u>
Current assets:			
Unexpended appropriations	19,594,155	11,075,711	30,669,866
Accounts receivable	17,857,981	28,415	17,886,396
Materials and supplies, at average cost	<u>6,712,874</u>	<u>-</u>	<u>6,712,874</u>
	<u>44,165,010</u>	<u>11,104,126</u>	<u>55,269,136</u>
Banking exchange receivable	8,055,144	-	8,055,144
Other assets	<u>21,148</u>	<u>36,503</u>	<u>57,651</u>
	<u>\$ 199,388,321</u>	<u>704,002,283</u>	<u>903,390,604</u>
<b><u>Federal Investment and Liabilities</u></b>			
Federal investment:			
Investment of U.S. Government:			
Congressional appropriations	\$ 619,116,452	1,441,350,212	2,060,466,664
Interest on Federal investment	37,587,683	620,914,839	658,502,522
Transfers from other federal agencies	<u>14,564,948</u>	<u>12,284,934</u>	<u>26,849,882</u>
Gross Federal investment	671,269,083	2,074,549,985	2,745,819,068
Funds returned to U.S. Treasury	<u>(604,736,813)</u>	<u>(1,373,755,995)</u>	<u>(1,978,492,808)</u>
Net investment of U.S. Government	66,532,270	700,793,990	767,326,260
Accumulated net revenues (deficit)	<u>96,856,854</u>	<u>(3,224,827)</u>	<u>93,632,027</u>
Total Federal investment	<u>163,389,124</u>	<u>697,569,163</u>	<u>860,958,287</u>
Current liabilities - accounts payable and accrued liabilities	11,737,980	6,433,120	18,171,100
Purchase power and banking exchange deferral	23,929,497	-	23,929,497
Hydropower revenue deferral	<u>31,720</u>	<u>-</u>	<u>331,720</u>
Total liabilities	<u>35,999,197</u>	<u>6,433,120</u>	<u>42,432,317</u>
Total Federal investment and liabilities	<u>\$ 199,388,321</u>	<u>704,002,283</u>	<u>903,390,604</u>

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Combining Statements of Assets, Federal Investment, and Liabilities**  
**September 30, 1995**

<u>Assets</u>	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Utility plant:			
Plant in service	\$ 126,152,967	932,758,752	1,058,911,719
Accumulated depreciation	(31,563,665)	(242,379,167)	(273,942,832)
Construction work in progress	37,247,605	8,104,226	45,351,831
Retirement work in progress	<u>(349,673)</u>	<u>-</u>	<u>(349,673)</u>
Net utility plant	131,487,234	698,483,811	829,971,045
Current assets:			
Unexpended appropriations	19,901,806	11,118,153	31,019,959
Accounts receivable	15,447,141	37,473	15,484,614
Materials and supplies, at average cost	<u>6,363,435</u>	<u>-</u>	<u>6,363,435</u>
	<u>41,712,382</u>	<u>11,155,626</u>	<u>52,868,008</u>
Banking exchange receivable	15,111,062	-	15,111,062
Other assets	<u>22,591</u>	<u>885,330</u>	<u>907,921</u>
	<u>\$ 188,333,269</u>	<u>710,524,767</u>	<u>898,858,036</u>
<b><u>Federal Investment and Liabilities</u></b>			
Federal investment:			
Investment of U.S. Government:			
Congressional appropriations	\$ 589,384,453	1,400,133,836	1,989,518,289
Interest on Federal investment	35,903,899	602,956,447	638,860,346
Transfers from other federal agencies	<u>14,574,521</u>	<u>12,294,539</u>	<u>26,869,060</u>
Gross Federal investments	639,862,873	2,015,384,822	2,655,247,695
Funds returned to U.S. Treasury	<u>(575,482,361)</u>	<u>(1,319,804,110)</u>	<u>(1,895,286,471)</u>
Net investment of U.S. Government	64,380,512	695,580,712	759,961,224
Accumulated net revenues	<u>83,660,315</u>	<u>8,817,990</u>	<u>92,478,305</u>
Total Federal investment	<u>148,040,827</u>	<u>704,398,702</u>	<u>852,439,529</u>
Current liabilities - accounts payable and accrued liabilities	6,981,137	6,126,065	13,107,202
Purchase power and banking exchange deferral	32,994,983	-	32,994,983
Hydropower revenue deferral	<u>316,322</u>	<u>-</u>	<u>316,322</u>
Total liabilities	<u>40,292,442</u>	<u>6,126,065</u>	<u>46,418,507</u>
Total Federal investment and liabilities	<u>\$ 188,333,269</u>	<u>710,524,767</u>	<u>898,858,036</u>



**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Combining Statements of Revenues, Expenses,**  
**and Accumulated Net Revenues**  
**Year ended September 30, 1996**

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power:			
Cooperatives	\$ 55,812,384	-	55,812,384
Municipalities	24,951,334	-	24,951,334
Federal and state agencies	4,876,969	-	4,876,969
Banking exchange	3,549,173	-	3,549,173
Transmission service charges for others	3,449,214	-	3,449,214
Other	<u>117,998</u>	<u>665,584</u>	<u>783,582</u>
Total operating revenues before deferrals	92,757,072	665,584	93,422,656
Net purchase power credit and banking exchange	10,305,254	-	10,305,254
Revenue distributed to Corps	<u>(51,864,714)</u>	<u>51,864,714</u>	<u>-</u>
Total operating revenues	<u>51,197,612</u>	<u>52,530,298</u>	<u>103,727,910</u>
Operating expenses:			
Operation and maintenance	17,299,278	32,301,884	49,601,162
Purchase power and banking exchange	13,502,379	-	13,502,379
Depreciation	3,058,412	14,411,165	17,469,577
Transmission service charges by others	<u>3,795,172</u>	<u>-</u>	<u>3,795,172</u>
Total operating expenses excluding interest	<u>37,655,241</u>	<u>46,713,049</u>	<u>84,368,290</u>
Net operating revenues	<u>13,542,371</u>	<u>5,817,249</u>	<u>19,359,620</u>
Interest expense on Federal investment	2,923,552	17,921,802	20,845,354
Allowance for funds used during construction (AFUDC)	<u>(2,577,720)</u>	<u>(61,736)</u>	<u>(2,639,456)</u>
Net interest expense	<u>345,832</u>	<u>17,860,066</u>	<u>18,205,898</u>
Net revenues	13,196,539	(12,042,817)	1,153,722
Accumulated net revenues (deficits):			
Balance, beginning of year	<u>83,660,315</u>	<u>8,817,990</u>	<u>92,478,305</u>
Balance, end of year	\$ <u>96,856,854</u>	<u>(3,224,827)</u>	<u>93,632,027</u>

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Combining Statements of Revenues, Expenses,**  
**and Accumulated Net Revenues**  
**Year ended September 30, 1995**

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power:			
Cooperatives	\$ 69,395,297	-	69,395,297
Municipalities	29,090,080	-	29,090,080
Federal and state agencies	3,809,122	-	3,809,122
Banking exchange	4,175,241	-	4,175,241
Transmission service charges for others	3,217,493	-	3,217,493
Other	<u>111,733</u>	<u>544,699</u>	<u>656,432</u>
Total operating revenues before deferrals	109,798,	966 544,699	110,343,665
Net purchase power credit and banking exchange	3,920,513	-	3,920,513
Revenue distributed to Corps	<u>(71,181,999)</u>	<u>71,181,999</u>	<u>-</u>
Total operating revenues	<u>42,537,480</u>	<u>71,726,698</u>	<u>114,264,178</u>
Operating expenses:			
Operation and maintenance	16,621,233	32,814,257	49,435,490
Purchase power and banking exchange	6,569,731	-	6,569,731
Depreciation	2,912,747	9,861,914	12,774,661
Transmission service charges by others	<u>3,605,947</u>	<u>(2,644)</u>	<u>3,603,303</u>
Total operating expenses excluding interest	<u>29,709,658</u>	<u>42,673,527</u>	<u>72,383,185</u>
Net operating revenues	<u>12,827,822</u>	<u>29,053,171</u>	<u>41,880,993</u>
Interest expense on Federal investment	2,681,979	17,590,630	20,272,609
Allowance for funds used during construction (AFUDC)	<u>(2,492,581)</u>	<u>(594,992)</u>	<u>(3,087,573)</u>
Net interest expense	<u>189,398</u>	<u>16,995,638</u>	<u>17,185,036</u>
Net revenues	12,638,424	12,057,533	24,695,957
Accumulated net revenues (deficits):			
Balance, beginning of year	<u>71,021,891</u>	<u>(3,239,543)</u>	<u>67,782,348</u>
Balance, end of year	\$ <u>83,660,315</u>	<u>8,817,990</u>	<u>92,478,305</u>

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
**Combining Statements of Cash Flows**  
**Year ended September 30, 1996**

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues	\$ 13,196,539	(12,042,817)	1,153,722
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	51,864,714	(51,864,714)	-
Depreciation	3,058,412	14,411,165	17,469,577
Interest expense on Federal investment	2,923,552	17,921,802	20,845,354
(Increase) decrease in:			
Accounts receivable	(2,410,840)	9,058	(2,401,782)
Materials and supplies	(349,439)	-	(349,439)
Banking exchange receivable	7,055,918	-	7,055,918
Other assets	1,443	848,827	850,270
Increase (decrease) in:			
Accounts payable and accrued liabilities	4,756,843	307,055	5,063,898
Purchase power and banking exchange deferral	(9,065,486)	-	(9,065,486)
Hydropower revenue deferral	<u>15,398</u>	<u>-</u>	<u>15,398</u>
Cash provided by (used in) operating activities	<u>71,047,054</u>	<u>(30,409,624)</u>	<u>40,637,430</u>
Cash flows from investing activities:			
Additions to utility plant	(16,150,050)	(8,700,287)	(24,850,337)
Allowance for funds used during construction	<u>(2,577,720)</u>	<u>(61,736)</u>	<u>(2,639,456)</u>
Cash used in investing activities	<u>(18,727,770)</u>	<u>(8,762,023)</u>	<u>(27,489,793)</u>
Cash flows from capital financing activities:			
Congressional appropriations	29,731,999	41,216,376	70,948,375
Funds returned to U.S. Treasury	(81,119,166)	(2,087,171)	(83,206,337)
Interest on Federal investment - purchase power deferral	<u>(1,239,768)</u>	<u>-</u>	<u>(1,239,768)</u>
Cash provided by (used in) capital financing activities	<u>(52,626,935)</u>	<u>39,129,205</u>	<u>(13,497,730)</u>
Net decrease in cash	(307,651)	(42,442)	(350,093)
Cash at beginning of year	<u>19,901,806</u>	<u>11,118,153</u>	<u>31,019,959</u>
Cash at end of year	\$ <u>19,594,155</u>	<u>11,075,711</u>	<u>30,669,866</u>
Noncash investing activities and other transactions -			
Transfer of plant in service (to) from other Federal agencies	\$ <u>(9,573)</u>	<u>9,605</u>	<u>32</u>
AFUDC included in interest expense on Federal investment	\$ <u>2,577,720</u>	<u>61,736</u>	<u>2,639,456</u>

# SOUTHWESTERN FEDERAL POWER SYSTEM

## Combining Statements of Cash Flows

Year ended September 30, 1995

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues	\$ 12,638,424	12,057,533	24,695,957
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	71,181,999	(71,181,999)	-
Depreciation	2,912,747	9,861,914	12,774,661
Interest expense on Federal investment	2,681,979	17,590,630	20,272,609
(Increase) decrease in:			
Accounts receivable	(5,174,778)	(930)	(5,175,708)
Materials and supplies	(823,488)	-	(823,488)
Banking exchange receivable	1,033,050	-	1,033,050
Other assets	(12,098)	86,991	74,893
Increase (decrease) in:			
Accounts payable and accrued liabilities	210,819	1,775,135	1,985,954
Purchase power and banking exchange deferral	(2,613,982)	-	(2,613,982)
Hydropower revenue deferral	<u>14,665</u>	<u>-</u>	<u>14,665</u>
Cash provided by (used in) operating activities	<u>82,049,337</u>	<u>(29,810,726)</u>	<u>52,238,611</u>
Cash flows from investing activities:			
Additions to utility plant	(15,988,568)	(13,911,477)	(29,900,045)
Allowance for funds used during construction	<u>(2,492,581)</u>	<u>(594,992)</u>	<u>(3,087,573)</u>
Cash used in investing activities	<u>(18,481,149)</u>	<u>(14,506,469)</u>	<u>(32,987,618)</u>
Cash flows from capital financing activities:			
Congressional appropriations	21,316,001	44,014,527	65,330,528
Funds returned to U.S. Treasury	(96,675,066)	(1,468,333)	(98,143,399)
Interest on Federal investment - purchase power deferral	<u>(1,306,531)</u>	<u>-</u>	<u>(1,306,531)</u>
Cash provided by (used in) capital financing activities	<u>(76,665,596)</u>	<u>42,546,194</u>	<u>(34,119,402)</u>
Net decrease in cash	(13,097,408)	(1,771,001)	(14,868,409)
Cash at beginning of year	<u>32,999,214</u>	<u>12,889,154</u>	<u>45,888,368</u>
Cash at end of year	\$ <u>19,901,806</u>	<u>11,118,153</u>	<u>31,019,959</u>
Noncash investing activities and other transactions -			
Transfer of plant in service from other Federal agencies	\$ <u>-</u>	<u>145,325</u>	<u>145,325</u>
AFUDC included in interest expense on Federal investment	\$ <u>2,492,581</u>	<u>594,992</u>	<u>3,087,573</u>

## **5200 - Division of Financial Management**

The Electronic Certification System (ECS) was implemented, which allows Southwestern to electronically certify payment schedules, thus expediting payments and improving security and integrity of the payment process. During 1996 employee usage of Direct Deposit increased to 80% for payroll and 44% for travel.

## **5600 - Division of Human Resources Management**

The first phase of Organization 2000+ was implemented, which reorganized Southwestern into the Office of Corporate Services and the Office of Corporate Operations. The third year of the three-year contract with IBEW local 1002 also went into effect. Southwestern's approved Federal staffing allocation for FY 1996 was 193; at the end of the fiscal year there were 182 employees on board.

## **5700 - Division of Acquisition and Property**

The division worked with the Division of Financial Management to reduce uncosted balances to less than \$1 million, and deobligated or liquidated approximately \$13 million in prior year actions. These actions supported decisions not to arbitrarily reduce Southwestern's budget appropriation by DOE, OMB, or Congress.

During 1996 the division completed studies on the Procurement Benchmarking System and on Southwestern Procurement Patterns, as well as compiling a 5-year history of those patterns.

Southwestern adopted a paperless approach, e.g. electronic bulletin board, electronic funds transfer, and electronic mail for its business transactions and arrangements. Solicitations and contracts are now issued on diskette, and will be done via cd-rom in the near future. An internet website provides online procurement information. Southwestern has been certified as having interim Federal Acquisition Computer Network (FACNET) capability, which allows prospective contractors to access, review, and respond to solicitations not exceeding \$100,000. FACNET also permits contractors to receive orders, and access information on awards. A great deal of procurement information is already available on the Internet; more will undoubtedly be forthcoming.

Southwestern completed training on and will promote the acquisition of commercial items to meet its needs.

## **5900 - Division of Information Resources Management**

Southwestern's Financial Management System was converted to a new computer system in 1996. This conversion included establishment of Oracle data base structures. Other software operational on the old system was converted to network-based operation. The new computer system, with current technology, resulted in a 75% reduction in maintenance costs and was located in a smaller room for additional savings.

The Rates and Repayment system was converted from a legacy Cobol system to network operation using the Excel spreadsheet. Software maintenance is more efficient, and studies are easier to run.

Southwestern's new Energy Management System (EMS) was brought on line at the Springfield, Missouri Operations Center. The new system provides improved Supervisory Control and Data Acquisition (SCADA), Automatic Generation Control (AGC) and advanced applications. It also improves data collection and communications capability, increases reliability, and reduces maintenance expense.

During 1996 the Division established a computer-based communications capability to inform a group of customers (the MOARK Pool) of available generation. Southwestern's presence on the Internet was established as [www.swpa.gov](http://www.swpa.gov), as well as videoconferencing capability at all sites. A noteworthy cost-reduction event for 1996 was the PBX installation.



**8100 - Division of Communications**

The division continued its efforts to calibrate the SCADA system, concentrating on reducing the incidence of mis-match between generation and load. Fiber-optic installations were tested and spliced in conjunction with division line crews' and contractors' replacement of overhead ground wire with optical ground wire. The move of communications systems from the old operations building to the new operations and maintenance building was completed.

**8200 - Division of Transmission Maintenance****Springfield Area Office**

The Springfield line crew replaced one of the transmission line overhead ground wires with Optical Ground Wire (OPGW), fiber optics, between the Springfield and Nixa substations to enhance communications and increase reliability for relaying action to protect the transmission system.

The Area Office assisted the U.S. Army Corps of Engineers (Corps) in repairing and adjusting air break switches, generator cooling equipment, and other equipment in the Corps substation yards as a partnering effort. The electrician crews replaced oil filled defective power circuit breakers with SF6 gas insulated circuit breakers. The gas breakers are low maintenance units, environmentally safe due to no oils being involved for electrical insulation of internal parts.

**Gore Area Office**

The Gore Area Office concentrated on transmission line structure replacements during the year. Information gathered from pole testing of the Area Office's transmission lines indicated a large number of structures with significant deterioration to pole members. This report resulted in development of a five-year plan to replace an extensive number of poles in the Gore Area. In addition, this was the first year of a five-year herbicide program to assist in maintaining vegetation growth on Southwestern's right-of-ways.

The Area Office also oversaw contractor replacement of several miles of transmission line replacement structures located in a difficult-to-access area of the Ozark National Forest between Bull Shoals Dam and Dardenelle Dam to provide for better reliability on a very critical part of Southwestern's transmission system. Major work activities associated with substation maintenance included replacement of several defective oil-filled power circuit breakers with gas breakers. Also completed was installation of remote terminal units (RTU) at Eufaula Dam and Kerr Dam with assistance from Corps personnel from the Tulsa District.

**Jonesboro Area Office**

The major emphasis for the Jonesboro Area Office during 1996 was the installation of OPGW on several miles of transmission lines to enhance the reliability of the communication system in that region of the transmission system. Major substation replacements included the installation of new current and potential transformers, gas breakers and gel-cell batteries in several substations. All of these efforts were designed to increase transmission system reliability and reduce preventative maintenance requirements. The gas breakers have proven to be very reliable and easy to maintain. Gel-cell batteries essentially require no maintenance after installation.

### **3100 - Division of Rates and Repayment**

A 9.3 percent rate decrease at R.D. Willis Hydropower Project was implemented on October 1, 1996. Also, the Integrated System Rates were extended for one year through September 30, 1997. Through the Interagency Committee on Cost Allocation's process, approval of the Sam Rayburn Dam Final Cost Allocation was obtained on September 27, 1996. During FY 1996, the division participated extensively in two GAO audits of Southwestern. This year also brought the move of the division into the Office of Corporate Operations.

### **3200 - Division of Customer Service**

Division personnel completed 55 contracts, including 38 new ones, 12 amendments, and 5 addenda to existing arrangements. A customer survey of 11 services offered by Southwestern was conducted; results showed an overall customer satisfaction rating of 4.3 on a scale of 5, or 86 percent. The division developed procedures for a trial economic scheduling service. A new information brochure to educate the public on the issues involved in hydropower and other competing users of water storage was also produced and distributed.

### **3300 - Division of Engineering and Planning**

Formal procedures for project management were developed during 1996. Coordination of project schedules with the Office of Maintenance and Procurement Division was improved, as well as obtaining outstanding results in project/budget executions. Division personnel completed the Power System Safety handbook review, developed a Hot Line work policy, and concluded and summarized relay terminal tests for seven critical transmission line segments. During 1996, Southwestern obtained agreement from the primary customers in its control area to implement automatic under-frequency load-shedding on its customers' distribution systems. This process should be near completion by the end of 1997. A comprehensive assessment of the reliability of the Southwestern Federal Power System and the Southwestern Power Pool region was performed. Results of the study were submitted to the Department of Energy and the Southwest Power Pool in October, 1996.

### **3400 - Division of Scheduling and Operations**

The division met its goals for reliable delivery and for generation control. The Dispatch Office was relocated and operation began on a new SCADA/EMS.

**Strategic Plan** While updating Southwestern's Strategic Plan in 1996, the three major forces directly affecting Southwestern were addressed.

They are:

- (1) rapid deregulation of the electric utility industry;
- (2) Federal budget deficits/ decreased appropriations; and
- (3) changes in the way the Federal Government does business.

**The new plan** recognizes these significant forces and consolidates the nine previously-identified strategic issues into four core business issues.

They are:

- competitiveness in maximizing the effectiveness of Southwestern's system;
- competing water resource uses;
- financial flexibility and cost consciousness;
- challenging and developing employees, and retaining a highly competent, flexible, and diverse work force.

**Organization 2000+** Southwestern's organizational structure was reexamined for adequacy as we move toward the year 2000 and beyond. As a result, "Organization 2000+" was developed, a plan that represents a multi-year perspective focusing on personnel and budget decisions. Through implementation of this plan, Southwestern will strive to improve internal communications and coordination, lower operating costs by reducing management layers, office space, and staffing levels, and decrease travel and overtime. There is rapid movement toward Organization 2000+ goals while avoiding negative economic impacts on employees and their families.

**Performance Measurements** While achieving success in its primary mission of marketing and delivering hydroelectric power, Southwestern has worked hard to effectively develop and implement performance measures. The performance measurement program known as AIM, (achievement, improvement, and measurement) is designed to measure performance results and reward performance on an agency-wide basis. It was designed around five core business goals (1) customer satisfaction (2) work environment (3) financial stability (4) public trust, and (5) reliability.

The results from the pilot program were so successful that it is being continued in FY 1997. It is a way of doing business that is employee centered, customer driven, and geared toward continuous improvement.

**Safety Program** The partnership between the maintenance and safety staff has resulted in lowering Southwestern's accident rate during the last five years from 3.56 to 1.85 in 1996, which ranks below industry statistics of 2.04 for the standard 200,000 hours worked. Savings in lost employee production and worker's compensation pay are helping to keep rates down.